

Notional interest deduction: 2016 interest rates announced by the Cyprus Tax Authorities

Issue N-5-2016, 7 June, 2016

In brief

For the purposes of the notional interest deduction (NID) the Cyprus Tax Authorities announced on 28 April 2016 the interest yield of the 10 year government bonds for Cyprus, India, Russia, Romania, Germany and Ukraine as at 31 December 2015, the relevant date for tax year 2016.

Based on the Cyprus Tax Authorities announcement the NID interest rate for tax year 2016 for funds employed in the above mentioned countries is as set out in the table below:

| Country where the funds are employed: | 2016 NID interest rate |
|---------------------------------------|---|
| Germany | 3,568% (Cyprus rate of 6,685% may be used) |
| Cyprus | 6,685% |
| Romania | 6,703% |
| India | 10,758% |
| Russia | 12,570% |
| Ukraine | 12,622% |

In detail

By way of background, with effect from 1 January 2015, Cyprus introduced a NID on new equity for companies. New equity is paid-up share capital and share premium introduced to a company as from 1 January 2015.

In a similar way that an interest expense on debt financing is generally calculated as an interest rate on loan principal, the annual NID is calculated as an interest rate on the eligible share capital / premium.

The **NID interest rate** is the yield on 10 year government bonds (as at 31 December of the prior tax year) **of the country where the funds**

are employed in the business of the company plus a 3% premium. This is **subject to a minimum rate which is the yield of the 10 year Cyprus government bond (as at the same date) plus a 3% premium.**

For the purposes of the above, on 28 April 2016 the Cyprus Tax Authorities announced the interest yield of the 10 year government bonds for Cyprus, India, Russia, Romania, Germany and Ukraine as at 31 December 2015, the relevant date for tax year 2016.

Based on the Cyprus Tax Authorities announcement the **NID interest rate** for funds employed in the above mentioned countries for tax

year 2016 is as set out in the table below:

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It is expected that the Cyprus Tax Authorities will shortly issue a clarifying circular on the practical application of the NID, including how to determine the country where the funds are employed.

For further details on the NID refer to our newsletter [N-3-2015](#).

The Takeaway

With this announcement the Cyprus Tax Authorities have established an important part of the NID calculation for 2016 for the countries which the announcement refers to.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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